A SHARED ECONOMIC VISION

FOR

ATLANTIC CANADA

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Prepared by

The Atlantic Provinces Chamber of Commerce

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by Dr. Michael McCracken, Informetrica

INTRODUCTION

In December 1996, the Atlantic Provinces Chamber of Commerce and the Atlantic Canada Opportunities Agency cohosted a Roundtable on Regional Competitiveness in Atlantic Canada (see Appendix A). The purpose of the Roundtable was to develop a shared vision for Atlantic Canada's economic future and to identify the steps required to get the region moving in this direction.

Representation at the Roundtable forum was by special invitation. The intention was to bring together a cross-section of leaders in business, government, and academia from across Atlantic Canada and to engage them in a day and a half of structured discussions on how to improve Atlantic Canada's competitive position in the global economy. Delegates (Appendix B) were assisted in their deliberations by excellent background papers prepared by well-known university research and business consultant groups; namely, KPMG Management Consulting, Business Development Incorporated (BDI), Informetrica Inc., and the North American Policy Group (NAPG) from Dalhousie University (Appendix C).

The participants were challenged to produce a set of recommendations which could be considered in any future economic development strategy for the region. These recommendations, it was suggested, should seek to build on the region's strengths, overcome its weaknesses or turn them into strengths, and include a clear understanding of the private sector's role and responsibilities for building a more competitive regional economy.

Delegates were also asked to develop a set of action priorities for fostering regional competitiveness by the end of the Roundtable discussions and, subsequently, work collaboratively to help move the Atlantic economy forward into the future.

The conference got underway with a reception and dinner on Thursday evening, December 9, during which the keynote presentation was made. On the following day, in depth discussions on five separate topical areas of importance to regional competitiveness followed early morning summary presentations by the four consult groups above mentioned.

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Welcome and Opening Remarks

Eric Ellsworth, Chairman of the Atlantic Provinces Chamber of Commerce (APCC), and Martin Abrams, Vice-President, Atlantic Canada Opportunities Agency, opened the conference by welcoming the delegates and explaining the purpose and expectations for the event.

Mr. Ellsworth stated that the goal for the Roundtable was *"to develop a shared vision for Atlantic Canada's economic future and to identify the steps required to get us there."* He reminded the delegates that "Atlantic competitiveness and Atlantic economic cooperation are subjects of utmost importance to the APCC." Judging from the on-going "feed-back", the APCC receives from its members, "these are topics of vital importance to the region's business community as well", he stated.

Mr. Ellsworth expressed his belief that "Atlantic Canadians are moving into a new and very exciting economy which presents some tremendous opportunities for growth and development; especially for those economies that are properly prepared, tooled and disposed to act." He said his organization believes that Atlantic Canada has the potential to thrive in this new economy, if residents can recognize their interdependence as a region and focus resources and efforts accordingly. The only factors to hold this region back, he contends, "will be a lack of vision and our failure to act in a truly concerted and coordinated manner."

He told the delegates that he hoped, with their active participation in the discussions, to have this forum begin to establish the requisite Vision and the outlines of an Action Plan to guide the region's future development and prosperity.

Mr. Abrams also thanked the delegates for their willingness to participate in the forum. He spoke briefly to the importance of understanding the rules which govern the international marketplace in today's globalized economy. "We have to understand those rules and play accordingly... the age of protectionism is over", the ACOA Vice-President reminded his audience. The ACOA Vice President explained that it was with this awareness in mind that ACOA began to organize these Roundtables over a year ago.

Mr. Abrams told the audience that his people [at ACOA] have gained considerable insight into the attitudes and underlying currents within the region and that he was looking forward to the discussions with encouragement and reasonably high expectations.

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Keynote Address

Following the official welcome and opening remarks by the conference Co-chairs, the keynote address was delivered by Dr.Michael McCracken, Chairman of Informetrica Limited. Dr. McCracken provided an excellent overview of the changing nature of society and a framework for better understanding the different, yet complementary, roles and interventions of both government and the private sector in building a productive, competitive and prosperous economy.

In the early part of his presentation, Dr. McCracken outlined his definition of competitiveness using this as a basis for proposing how government and the private sector should work together to create desired prosperity. "Competitiveness", he maintains, varies depending on the level at which it is applied; i.e., at the firm, industry, regional, national and individual levels.

In setting the stage for his message, Dr. McCracken said that any state could be thought of as a set of stacked boxes: workplace, marketplace, and society. The economic objectives at each level are quite different, he explained. For example, the objective for society should be "prosperity". In the marketplace, "competitiveness" would be the desired result. Finally, in the workplace, "productivity" would be the more precise and appropriate objective to be persued.

The challenge and subject for this forum, Dr. McCracken proposed, was to determine what can be done to make progress on all three fronts; i.e. prosperity, competitiveness, and productivity. This he suggested be done keeping in mind the background, framework, tools, circumstances and context which he outlined in some detail in the main body of his address.

"Improving productivity growth is the key to increasing competitiveness, which, in turn, should enhance prosperity", was the main thesis of Dr. McCrackens presentation. Productivity, he contends, will result from:

- improved human resources
- higher investment
- adoption of new technologies
- Better infrastructure
- Productivity twist [refers to moving resources to high productivity industries from lower ones]

How to accomplish this? Dr. McCracken explained:

- Less inflation
- Better macroeconomic performances
- Right framework policies

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- Better education and training
- Getting the signals right
- Capacity to use skills
- Right organisational structures

Competitiveness, Dr. McCracken defined as:

- Improving the efficiency and effectiveness of the marketplace
- Internationally, competition is a relative concept, based on price, quality, deliverability, and service

  Governments are involved, through regulation, standards, taxes and subsidies, crown corporations, international agreements, etc.
- Provision of physical infrastructure

As to the question of how to improve competitiveness, Dr. McCracken proposed the following:

- Improve the regulatory process
- Reduce internal barriers to trade
- Improve access to international markets
- Expand the information infrastructure on domestic markets and international economies
- Assist Canadian firms in entering new markets

Prosperity, Dr. McCracken defined as:

- Rising real incomes for all Canadians
- Sustainable environment
- Provision of safety nets
- Contribution to world economies through aid, etc.
- Improvements in regional economies
- Provision of amenities [parks, etc.]
- Participation of citizens in processes

After presenting the above framework and definitions, Dr. McCracken provided a comprehensive overview of Canada's, and Atlantic Canada's, relative economic performance vis-à-vis a number of standard economic indicators of success. As well, he presented the delegates with a few suggestions of where the nation and region should go from here with respect to economic and regional development. As to Canada's relative overall performance, he said that "Canada is wealthy and competitive today... but that there is room for improvement."

With an unemployment rate of over 10%, large regional differences, increasing poverty and relatively high illiteracy, slow productivity growth and stagnant or declining per capita incomes, Canada must pick up the pace, contends Dr. McCracken. Furthermore, the country faces a

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number of new challenges; such as national unity, military changes, new technologies, the aboriginal issue, globalization, the environment, etc., with which it must cope as well.

Even though Canada is ranked number two in GDP per capita among the G-7, number two in GDP per employed person, number two in wealth per capita, and number one in Quality of Life, there are signs of decline. Productivity has been slowing for two decades; real incomes per household have been declining since 1989; and there is a serious need to adapt to changes from BIOTECH, computers, new materials, telecommunications.

Though Canada's performance, as measured by real incomes per household, has been relatively weak, Atlantic Canada has done much better, Dr. McCracken indicated. While Atlantic Canada has lower disposable income per household than the Canadian average since 1981, there has been a convergence, with the gap narrowing between Canadian income levels and Atlantic Canada. However, the outlook based on "current policies" is for only modest improvement in real disposable income through the year 2001, both for Atlantic Canada and the nation as a whole.

The challenge facing Atlantic Canadians, and the country as a whole, will be to devise policies and action plans which will lead to increased productivity, competitiveness and prosperity in future. This, the region must do in the face of significant workplace, marketplace and societal changes.

Unless Atlantic Canada can move to improve its productivity and competitiveness levels, the region and its people cannot hope to enjoy continued prosperity. The challenge for the participants to this forum will be to start the process of shaping the region's plans and developing a clear vision for Atlantic Canada's future; this was the clear message left by the keynote speaker.

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Report on Roundtable Discussions

After hearing from the various consultant groups regarding Canada's [and Atlantic Canada's] relative position in the world economy, the delegates entered into in depth discussion of the subject matter. In addition to the background documents, participants were presented with a definition of competitiveness as a starting point to this phase of the conference:

> **the degree to which a country can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real incomes of its people over the long term (see Appendix D).**

In response to the array of study data presented by the consultant representatives, the participants brought forward some very insightful and specific proposals of their own. The Roundtable consultation process delved into five specific sectoral areas:

Technology
Access to Capital
Human Resources & Education
Trading Patterns
Business Investment

1. **Technology**

The participants' examination of this sector commenced with a summary of the following key points which were drawn from the consultant reports:

PROS

i) Some excellent S&T resources and infrastructure in Atlantic Canada
ii) A favourable tax treatment regime compared to United States

CONS

i) Small number of scientists and technicians
ii) Low tertiary science enrolment
iii) Low private sector investment in R&D expenditures and personnel
iv) Low rating in technology management

The participants expressed the belief that Atlantic Canada has not been very effective in transferring technologies out of the region's research facilities, especially universities.

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Much greater progress, they believe, is being made with respect to partnering between public sector research facilities and industry. They proposed that universities need to do more in this area as well. UTECH in Nova Scotia, CCFI at the Marine Institute in Newfoundland, and the Atlantic Research Operations were cited as examples of brokers available to the business community. These agencies can help to identify what is on the R&D agenda and how to begin the process of securing R&D support for a business.

Several measures, by which universities could implement more effective technology transfer, were presented:

- adopt a greater market orientation (profit focus)
- allow and encourage scientists to take their new technologies to market
- foster greater entrepreneurship among scientists and facilities
- be more sensitive to the time lines and resource constraints within which private sector firms must operate
- be more proactive in industry outreach efforts and marketing
- continue to develop more effective Technology Transfer Office models; such as, the Utech at Dalhousie University and Seabright at Memorial

In addition, the delegates proposed that the region needs to focus more on key resources and assets and on "winning" firms. Focus should be on effective incubation mechanisms complete with mentorship and quality management advice that will accelerate the growth of companies which have a good chance at winning, and maintaining the concept of "business creating business" and exciting new start-ups.

Participants stated that banks need to be far more sensitised to the need for and importance of R&D, especially among SME's. To achieve success in this area, the participants emphasised the continuing importance of partnerships between business and the institutions and the need to make the technology transfer process far more market-driven.

2. **Access to Capital**

Again the forum participants were presented with a few key findings from the background documents to help prompt discussion:

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PROS

i) Strong domestic financial system
ii) Availability of debt capital

CONS

i) Over-leveraged on debt
ii) Lacks organised equity capital market
iii) Low take up on available venture capital
iv) Reluctance of businesses to go public
v) Four distinct securities regimes

A major problem expressed with respect to capital was the lack of knowledge and understanding was a common point of view expressed. Participants voiced the need for bankers to have a better understanding of SMEs. especially in knowledge-based sectors. There is the need as well for entrepreneurs/small business to learn how to source investment capital and understand the "security" issue. Entrepreneurs need to be better informed about sources of financing and the various options available, some members felt.

Another problem centred around the availability of equity capital for small business start-ups and the lack of "exit mechanisms" for investors and "exit strategies" on the part of the business owner. Though it was generally thought that Atlantic Canada probably lacks the critical mass necessary for an indigenous stock exchange, this should not present any real problem for firms that need to be listed.

However, concern was raised over the restrictive nature of the region's securities regime and the inability of the provinces to make real progress towards a single regime (in a national context). Efforts must be made to harmonise or ease the regulations that would encourage informal investors. Though much of the basic infrastructure is in place, the delegates contend that the region has not stopped to "segment the gaps" in our capital market.

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3. **Human Resources & Education**

Again the key points advanced to the forum participants were:

PROS (Human Resources)

i) Comparatively lower wage costs
ii) Positive workforce attitudes and ethics
iii) Job creation by new businesses

CONS

i) Lower quality workforce than competitors, i.e.: management skills and employee training
ii) Brain drain
iii) Deceleration in population growth
iv) High rate of unemployment (especially youth)

PROS (Education)

i) High per capita supply of institutions of higher learning
ii) A commitment to higher education
iii) High enrolment per capital in schools, colleges and universities
iv) Available supply of highly-skilled workers

CONS

i) Disconnect between educational assets/value system and demands of workplace
ii) Lower education levels that US (especially older and rural residents)
iii) Brain drain
iv) Shortage of competent senior managers and management skills
v) Businesses failure to provide training to employees

Participants expressed concern regarding the perception of a serious disconnect between education/training and industry needs. They expressed the need to differentiate between skill-specific training and general education to ensure there is a suitable degree of adaptability in the general workforce. A dialogue between industry and educational institutions is necessary to identify the needs of industry and the willingness of the educational sector to meet those needs.

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"The new generation gap is between the computer literate - the under 30 generation - and the older 'management generation'", one member proffered. This phenomenon augments the problem of a younger group of very skilled workers being highly mobile in a truly global economy. In other words, unless suitable jobs are created in the region, the more talented will undoubtedly go "down the road". This will further add to the region's "brain drain" problem. Under NAFTA, they have a ready access to work in the US.

There was general agreement with the notion that the need for employers to train their workforce doesn't appear to be as well appreciated by firms in the region as is the case elsewhere. It was identified that Atlantic Canadian businesses are not willing to pay current market wages for highly skilled technical employees, therefore, they go where the best prospects for advancement and salaries are to be found.

It was suggested that responsible entities start to measure unit labour costs as a totality of wage rate and productivity so as to illustrate the superior benefits of a trained workforce. If we cannot offer competitive wages and compensation, the "brain drain" young talented people from this region will continue.

Human resources, it was agreed, is the number one key to business success! It was also acknowledged that a change in attitude is slowly evolving among the business community which recognises this fact. However, greater responsibility for employee training is hampered by the fear, on the part of employers, of expending scarce dollars to train some other company's workforce.

This problem is beginning to be addressed through a collaborative process wherein industry sectors and sub-sectors are starting to form networks to share the training responsibility. Such networks enable industry groups to identify like needs and resources and to utilise a combined effort in training, as well as in product research and development. Finding the right training program was considered important as well as one that is flexible to individual and industry needs.

4. Trading Patterns

PROS

i) Competitive trade advantage through NAFTA

ii) Relatively free domestic trade

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CONS	
i)	Lack of diversity in export industries
ii)	Low growth rate in volume of merchandise exports
iii)	Over-dependence on resource and manufacturing sectors
iv)	Low job growth in larger enterprises

To enhance Atlantic Canada's overall competitiveness and sustainable export-based job growth will require improved export preparedness, greater diversity in products and services exported, and greater diversity in external markets served (especially by SMEs).

The expertise to promote export readiness and help identify export opportunities is resident in the private sector. However, the service sector is finding it difficult to compete with similar public sector services, the delegates contended.

The Industry Canada-Chamber of Commerce "flexible business networks" initiative was seen as an excellent example of pooling resources by industry and government. The "network" approach involves teamwork among the various business stakeholders and the close collaboration of government. A professional facilitator often serves to ensure a co-operative, rather than simply a competitive, approach in addressing market opportunities. SMEs can, the delegates agreed, learn from venture capital-backed firms, most of which are highly export-oriented. These firms use strategic alliances extensively and SMEs need to understand the value of such relationships in areas of distribution, cash flow, R&D and market expertise.

There needs to be far more emphasis placed on further developing the region's export markets, especially in the United States. One suggestion was to build on the partnership model currently being used in the Atlantic Canada-New England Partnership Conference.

Since the last recession, the region has experienced substantial growth in non-traditional markets and excellent growth within the region that is now largely driven by exports. Regardless of recent progress, Atlantic Canadian businesses must continue to grow and expand into the export marketplace, appeared to be the general consensus.

The major impediment to establishing an "exporting culture" and a world class economy in Atlantic Canada is attitude. "ATTITUDE IS EVERYTHING!"

It was also proposed that the region place far more emphasis on the pursuit of opportunities for export growth in non-traditional markets, such as the software sector.

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It is important, delegates recommended, that the region more effectively organise itself around those sectors/sub-sectors of the economy which present the best export opportunities.

Atlantic Canadians need to be better promoters of the region's goods and services in export markets, a process which takes time and effort. As one delegate stated: "we must continuously practise the three Ps...presence, perseverance, patience". Atlantic Canada is in relatively good shape; it is a good place in which to live and work. However, the region needs get its products and services into the world marketplace ever more aggressively, if the region is to enjoy continued prosperity. Atlantic Canadians must start waving the flag!

5. **Business Investment**

The key points to help guide discussions were:

PROS	
i)	Lower cost of industrial land, construction and labour than US
ii)	Competitive costs for electricity, transportation and interest
iii)	Cost advantage in location-sensitive capital and operations
iv)	Above-average economic growth
v)	Strong earnings-per-employee growth
vi)	High rate of manufacturing investment
CONS	
i)	Small business base from which to grow
ii)	Low investment effort
iii)	Low rate of industrialisation

Though small and medium-sized firms are important, the region must put some focus back on the importance of larger firms, members expressed. The lower costs of industrial land, as well as construction and labour costs, should be used more consistently in promoting the region as an ideal investment area. These advantages, plus the competitive costs for electricity and transportation, should show investors that the 7% cost advantage Atlantic Canada currently experiences, would, in most instances, quickly manifest itself on the bottom line.

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There is the need to adopt a more balanced approach with respect to the pursuit of business investment. Atlantic Canada should build on opportunities in the service sector, notably in health care and education - currently regulated sectors - wherein the region could be very competitive, particularly in the US market.

The need to determine growth expectations over a five-year period to guide an investment promotion strategy was suggested. Other than improving their collective attitude, SMEs need help getting ready for export marketing and should be encouraged to use the private and public expertise that is available. There is the need to create an awareness of the resources that are available, such as firms that are already exporting.

Market knowledge was also considered critical. Many firms have important market knowledge here in Atlantic Canada. It is important to find these firms and take advantage of what they know!

Conclusion

In summary, it was unanimously agreed that the road to world-class, competitive economy must start a shared-vison and a far more positive and progressive collective set of attitudes about this region and its prospects.

It was felt, not surprisingly, that too many people in the rest of Canada do not believe in Atlantic Canada; that the region suffers from an impression of dependency on the rest of the nation. It is important, the members believed, to break away from this dependency mindset. More significantly, it is important that Atlantic Canadians (and others) recognise the substantial progress already underway in this regard. As one informed member stated, "Recognise it or not, this is already happening in reality. Recent studies illustrate that there has been a major shift occurring over the past few years wherein the region's dependency on the rest of the nation has diminished substantially."

The participants were unanimous in their belief that Atlantic Canada needs a well articulated, shared vision, with a desired outcome or goal, for which all its inhabitants can strive. That vision has to embody the notion of Atlantic Canada being a "have community." It was also suggested that the private sector has to be the primary vehicle, and all stakeholders - public and private - need to find a way to overcome the parochial/political interests that have tended to impede regional initiatives in the past. It was also proposed that a Roundtable, or similar forum, should be convened to explore/develop such a vision and a strategy to help move the region forward.

It was further suggested that Atlantic Canada has some excellent models to help guide the process. Moncton, as well as a number of other jurisdictions, were cited as examples of how a community can take charge of its destiny, overcome barriers such as linguistic and cultural differences, and succeed based on stakeholder collaboration.

Atlantic Canada must and could do the same, was the general consensus. Participants were unanimous in their belief that the process must start with a shared vision and a "can do" attitude.

APPENDIX A

REGIONAL COMPETITIVENESS:

An Overview of Recent Research on Competitiveness in Atlantic Canada

Prepared by the Atlantic Canada Opportunities Agency for the APCC-ACOA Roundtable on Atlantic Canada's Competitiveness ... December 9 and 10, 1996

Regional Competitiveness - Overview of Recent Research

Introduction

According to the OECD, competitiveness is defined as "the degree to which a country can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real incomes of its people over the long term". Competitiveness is the strategic element that attracts investment. It is influenced by social, human, technical, financial and institutional factors, as well as traditional economic indicators.

During the past year, ACOA commissioned four separate studies by recognized experts to identify and measure the factors and indicators that underlie and determine competitiveness in Atlantic Canada. This is the first undertaking of its kind to regionalize national and international competitiveness models. The objectives were to:

- show Atlantic Canada in a North American and global perspective, using internationally recognized standards of measurement;
- demonstrate that Atlantic Canada has a real basis for competitiveness and growth, particularly vis-à-vis the United States;
- identify the region's strengths as a basis for opportunity promotion and investment attraction;
- identify specific areas of weakness requiring policy and program initiatives; and
- respond to the myth that Atlantic Canada is not a competitive location for investments.

The studies, copies of which are attached, utilized four distinct measures of competitiveness. The first study to be released was prepared by KPMG and BDI and focussed on site location-sensitive cost factors and quality of life indicators. Through a comparison of investment costs in 16 Atlantic Canadian communities with 12 communities in the U.S., the study showed Atlantic Canada as a region to have a 7 per cent after tax cost advantage over the U.S. The second study released was carried out by Informetrica and used the United Nations Human Development Index to compare the socio-economic status of Atlantic Canada with G-7 nations. This study ranked the region second only to Canada but went on to identify several competitiveness challenges such as a low rate of industrialization, high unemployment and low investment effort.

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More recently, the North American Policy Group at Dalhousie University completed comparative analyses of Atlantic Canada with the 50 States and the 48 leading economies of the world using two well-established competitiveness models. The 50 States comparison ranked Atlantic Canada 33rd among the 50 states and on a relatively equal footing with our neighbour states of New England. The world comparison, based on the World Competitiveness Report, ranked the region 27th compared with 49 leading world economies. The next section provides more detail on the approach and findings from each study.

Investment Cost Comparison - KPMG / BDI ...

The KPMG / BDI study compares the financial and non-financial costs of establishing and operating a business in selected Atlantic Canadian and U.S. cities. It builds upon similar work KPMG carried out for the Department of Foreign Affairs and International Trade in 1994 and 1995. That project compared investment costs for seven illustrative industries in eight Canadian and seven U.S. cities. The results were ranked by city and showed that costs were consistently lower for the Canadian cities studies. The new study expanded the analysis to cover sixteen Atlantic Canadian cities and twelve cities of varying size in the U.S., with particular emphasis on providing a comparison with the eastern U.S. Seven industries profiled were selected to be representative of Atlantic Canada's economic potential. They include frozen foods, medical devices, software, telecommunications, plastics manufacturing, metal fabrication and electronics and instrumentation. Key findings of the study include:

- for every industry examined, investment costs are lower in Atlantic Canada, and that cost advantage holds over a range of exchange rates
- construction and labour costs are major sources of advantage
- our health and benefits systems provide cost advantages to business
- quality of life factors contribute positively in Atlantic Canada although we demonstrate somewhat lower education levels

With respect to the issue of education levels in Atlantic Canada, it must be pointed out that this latter observation must be balanced with education-related findings in the other studies. The region has an excellent education infrastructure and comparatively high spending in education generally. We do have an available supply of highly-skilled, educated workers. At the same time, however, regional demand for these skilled workers has not matched the supply resulting in a net loss or "brain drain" of skilled workers from the region. Further, education levels tend to be lower among the older and rural elements of the labour force. The issue then becomes one of whether and how to reconcile these contradictory observations.

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United Nations Human Development Index - Informetrica Limited ...

Recognizing that regional competitiveness is not solely determined by direct financial cost factors, ACOA initiated a study focussing primarily on the socio-economic aspects of competitiveness. Informetrica conducted the study using the U.N.'s Human Development Index (HDI) methodology. First published in 1990, the Human Development Report highlights the importance of integrating economic growth and human development to asses the overall development of a country. The HDI has gained widesprad acceptance among social scientists as an alternative to standard measures such as Gross Domestic Product and has become the most widely reported index of the Human Development Reports published annually.

Informetrica's research included a report on on the HDI, the analysis of which indicates that if Atlantic Canada had been integrated into the 1995 UN HDI rankings, the region would have placed second only to Canada. Key findings include:

Major Strengths:

- health, long life expectancy
- strong commitment to education
- more equitable distribution of income
- low inflation performance
- above-average economic growth and strong earnings per employee growth

Major Challenges:

- low rate of industrialization
- high unemployment rates, especially among youth
- decelerating population growth
- low investment effort
- few scientists and technicians and low tertiary science enrolment
- high rate of energy use per capita

Atlantic Canada and the 50 States: A Development Comparison - NAPG ...

The first of two comparative studies undertaken by NAPG, this study was based on a U.S. model called the Development Report Card for the States published annually in Washington. It measures and compares the economic performance and development potential of the states on a broad set of economic and social indicators. NAPG replicated this comparison by inserting Atlantic Canada into the model and comparing it to each of the states. As mentioned earlier, the study indicated that Atlantic Canada would rank 33rd among the states using this model.

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Particular areas of strength for the region include our health and social systems, environment, existing business base and entrepreneurial energy, infrastructure and the banking system. Areas of weakness identified include technology resources, high unemployment and low employment growth, lack of diversity within the traded sector and lower educational attainment among a large proportion of the workforce. The study also pointed out factors which limit the region's capability to advance to higher rankings against various criteria. These include:

- low innovation and adoption of technology
- weak management capabilities underlying the small size of the SME sector
- a labour force which has need of measures to strengthen its skill set
- a narrow base of traded products and services leading to slow growth in the region's exports

Atlantic Canada and the World: A Development Comparison - NAPG ...

The second study carried out by NAPG provided a comparison of Atlantic Canada's competitiveness with the world's leading economies. The model used for this analysis was the World Competitiveness Report published annually by the World Economic Forum and the International Institute for Management Development in Switzerland. This report, which is widely recognized as the most authoritative assessment of international competitiveness, measures and ranks economic competitiveness for the world's 48 industrial countries, including all OECD member nations. The report utlilizes a diverse set of 378 economic and social indicators which are ultimately grouped into eight main categories. These are domestic economic strength, management, finance, people, government, infrastructure, internationalization and science and technology.

The model provides a means of both ranking the various countries and analyzing the factors which determine their relative performance. It also gives insight into how countries can improve their competitive position and can be instructive to the development of appropriate economic policies. When NAPG inserted Atlantic Canada into the World Competitiveness Report's framework, the region ranked 27th out of 49 economies, with the U.S. 1st, Canada 12th and Britain 18th. Atlantic Canada ranked just ahead of Spain, Aregentina, Italy and Egypt and just below Korea, Iceland and Thailand. Key findings of the study include:

Weaknesses or "Liabilities":

- lack of international orientation and export diversification
- low R&D, innovation and technology adoption
- deficient management skills
- weak credit capacity and local capital market

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- low rankings for employment and unemployment
- a brain drain which reduces the number of skilled young people

Strengths or "Assets":

- strong physical and human infrastructure
- general education capacity
- government, financial systems
- stable economic environment

The report notes that the assets we possess are a key factor in differentiating our ranking from those of many countries in the rankings which are deficient in basic competitive factors. NAPG argues that Atlantic Canada's weaknesses are in areas which can be addressed by effective economic policies. These areas include entrepreneurship, trade, science and technology and management and labour skills. The next section of this paper attempts to provide a more integrated analysis of the findings of the four studies.

Comparative Analysis of Findings ....

The international comparisons provided by the four studies place Atlantic Canada's competitiveness on economic and social factors in the mid-range of industrial countries. Our competitive position clearly benefits from sharing Canada's social and financial systems and our fundamental social and human factors compare with most advanced countries. The region's economic foundations are generally strong but there are factors which limit our capability to advance our ranking.

This section reviews the key findings of the four studies by grouping them under seven key factors. This provides some interesting contrasts between our various strengths and weaknesses and may serve to help focus discussion on the broader value of the findings and an identification of appropriate remedial measures.

Technology: Atlantic Canada does have some excellent S&T resources and infrastructure and the study findings argue that we possess a tax treatment regime for R&D expenditures that compares favourably with the regime that exists, for example, in the U.S. However, the studies also point out that we have several fundamental technology-related challenges facing us, from our relatively small number of scientists and technicians and low tertiary science enrollment to a low private sector investment in R&D expenditures and personnel and an overall low rating in technology management.

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Capital: Access to the strong domestic financial system and availability of debt capital are seen as assets of the region. Some have argued, however, that our regional economy is over-leveraged on debt and we suffer from the absence of an organized equity capital market. Our lack of venture capital, or put another way, failure to attract venture capital is viewed as a key weakness, one that is perhaps further compromised by a business culture which does not appear to encourage going public. There is likely more to this problem than business culture. Atlantic Canada lacks well-established equity markets and related exit mechanisms and investors and entrepreneurs are faced with four distinct securities regimes in the region.

Education: The region is blessed with a high per capita supply of institutions of higher learning, a commitment to higher education, high enrollment per capita in our schools, colleges and universities and, in turn, an available supply of high-skilled workers. However, we are faced with an apparent, fundamental disconnect between these assets and value system and the reality in the workplace. We find ourselves possessed of somewhat lower education levels, for example, than is the case in the U.S. Notably, the older and rural elements of the labour force tend to be less well educated. Further, we as a region have long suffered a brain drain. Either our economy is simply not generating enough employment opportunities to keep our educated youth in the region or there is a fundamental disconnect between the needs of the region's business community and the curricula of our universities. The latter has been suggested in other research with respect to university research and business needs and opportunities. As well, findings suggest the region does not have enough competent senior managers or generally individuals possessed of good management skills. Too many of our businesses seem unwilling to provide training opportunities to their employees.

Human resources: Among the key positive attributes of the region's economy are the comparatively lower wage costs and a workforce characterized by positive work attitudes and ethics. However, there is also the finding that we have a relatively lower quality workforce in the region compared with competing jurisdictions, a finding that is supported by the other findings regarding management skills, employee training, the brain drain and a deceleration in our population growth. We also have an unacceptably high rate of unemployment, especially among the younger members of our society. But our potential to make sustainable progress toward alleviating this situation may be underscored by the indications that we as a region rate favourably with our competitors in terms of job creation by new business.

Trading patterns: Despite enjoying a competitive trade advantage through NAFTA and and relatively free domestic trade, we are told that we still lack diversity in our export industries and that we have a low growth rate in the volume of our merchandise exports. The resource and manufacturing sectors remain the dominant engines of export in the region but these are typically larger enterprises which are not a vibrant source of job growth. Improved export preparedness by the Region's SMEs, comprised of greater diversity in products and services exported and in the external markets served, will be integral to Atlantic Canada's overall competitiveness and sustainable export-based job growth.

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Business investment: Atlantic Canada, comparatively speaking, has a small business base to grow from, coupled with a relatively low investment effort and low rate of industrialization. In the face of these characteristics, however, we are told that we can be competitive as a place to invest ... we have lower costs for industrial land, construction and labour than are found in the U.S., competitive costs for electricity, transportation and interest, and an overall cost advantage on location-sensitive capital and operating costs in the seven key industry sectors studied. This may in part explain another finding that we are experiencing above-average economic growth, including strong earnings-per-employee growth, and a high rate of manufacturing investment.

Quality of life: Clearly evident in the findings of these studies is the competitive advantage inherent in the quality of life we enjoy in the region. Against a broad set of benchmarks, Atlantic Canada rates very well with our competitors. These characteristics should not be discounted. They are a significant consideration for potential investors and we have already seen many examples of how we can use these characteristics effectively in investment promotion. Many of these are derived from being part of the Canadian federation, notably our ability to control inflation and in factors related to health. We rate highly in areas such as our comprehensive health system, health indicators and life expectancy. We also benefit from a clean environment and abundant renewable water resources. Finally, we live in a region which has a lower crime rate and fewer violent crimes than most of our competitors.

Conclusions ...

- A comparative analysis of the competitiveness studies shows that Atlantic Canada has strengths which can be capitalized on to attract investment. As KPMG and NAPG have commented, Atlantic Canada is not well known in the United States, and investors who do not currently view the region as a location to do business may be surprised.

- Many of the positive factors working in Atlantic Canada's favour are characteristics and assets that require a long time to build up. These differentiate the region from many of its competitors and can be a strong springboard for future competitive economic growth.

- Some negative factors are structural in nature such as a lack of diversity in exports and lower education levels in rural and older elements of the workforce. However, some negatives are symptoms or results of the structural factors. For example, the region's brain drain would be a lesser problem with faster job creation. Atlantic Canada's small, local population and market size are less of a problem with increasing export market orientation.

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- The findings point to a need for a broad strategy that targets key structural issues and which will bring about effective actions to address identified structural weaknesses such as trade diversification, management skills, R&D and innovation, business investment and local capital markets and related gaps.

APPENDIX B

ATLANTIC PROVINCES CHAMBER OF COMMERCE
AND
ATLANTIC CANADA OPPORTUNITIES AGENCY

BUSINESS ROUNDTABLE
DECEMBER 9 & 10, 1996
CITY HALL, MONCTON, NEW BRUNSWICK

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APPENDIX C

Background Documents

Title	Prepared by
Atlantic Canada Human Development Index Study	Informetrica Limited
A Comparison of 1996 Business Costs in Atlantic Canada and the United States	KPMG Management Consulting (In association with BDI)
Atlantic Canada and The World: A Development Comparison	North American Policy Group, Dalhousie University
Atlantic Canada and the 50 States: A Development Comparison	North American Policy Group Dalhousie University
1995-96 ACOA Roundtable Initiative Reports	Initiated by ACOA in partnership with:: St. Mary's University St. Francis Xavier University University of New Brunswick Memorial University of Newfoundland Atlantic Veterinary College
Regional Competitiveness: "An overview of Recent Research on Competitiveness in Atlantic Canada	Atlantic Provinces Chamber of Commerce

Competitive Thinking

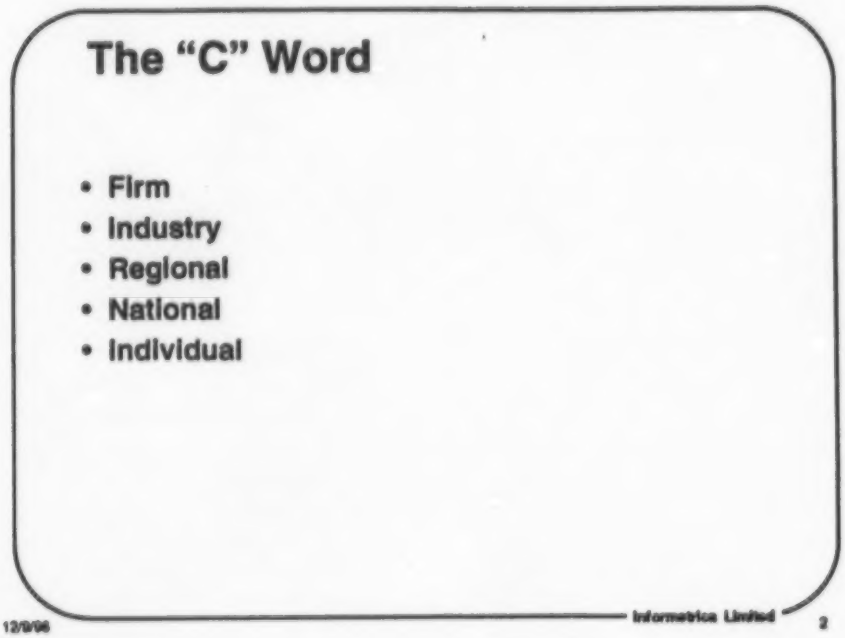
Briefing Notes

Roundtable on Competitiveness
December 9-10, 1996
Moncton, New Brunswick

Mike McCracken, Chair
Informetrica Limited

C on C

- Conversation on Competitiveness
- The "C" Word
- A Framework
- How are We Doing?
- Where from Here?



The definition of "competitiveness"varies depending of the level at which it is applied.

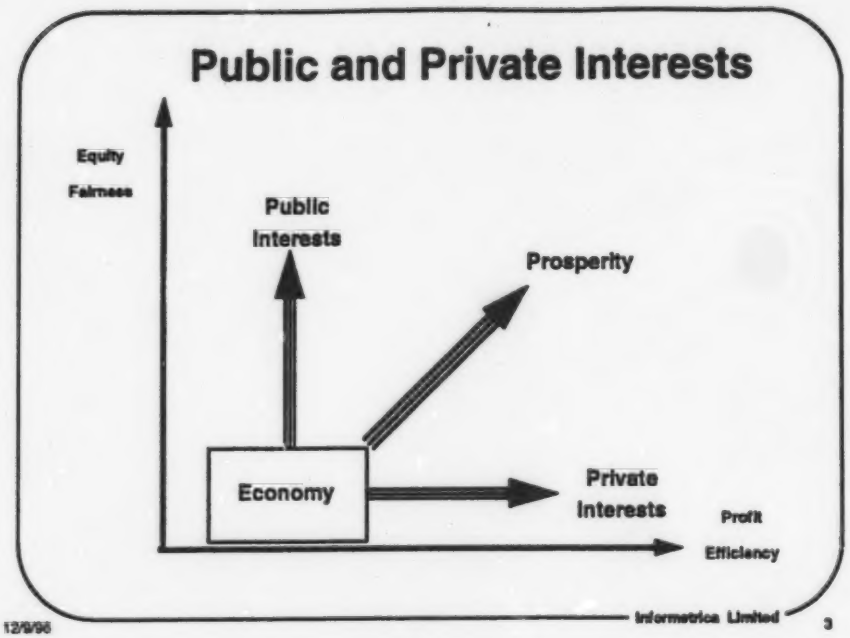
"Firm" - company can produce goods and services on a sustainable basis, earning sufficient profit to provide comparable returns to investors.

"Industry" - sustained viability with returns to capital and labour comparable to other industries; firms may exit and enter; may require related industries

"Regional" - Long-term viability with returns sufficient to keep them in place. Usually requires one or more immobile factors that receive the residual returns. The key to "place prosperity".

"National" - Not a comparable notion, although often used to describe the standard of living of a nation.

"Individual" - the skills, knowledge, and health that allow the maximum return (financial and psychic) from an individual's efforts. This is where governments spend much of their effort (education, health, training, etc.) and where some of the infrastructure is built to serve (personal transportation, parks,sewage and water, etc.)



- Some see the "struggle" as governments against private interests.

- But governments complement private activities, provide the framework within which private activities take place, and, ultimately, ensure that the private sector flourishes.

- Thus a graphical representation would show that governments pursue different purposes, orthogonal to private interests. Together, the two entities will deliver prosperity.

Tools of Governments
A. Dollars - Subsidies, grants, tax expenditures.
B. Spending - Infrastructure investment, provision and pricing of government services.
C. Rules - Laws and regulations, framework policies, mandated activities.
D. Suasion - Information activities, public messaging, demonstration projects, consultation.
Coordination - Harmonization of public and private sector activities, intergovernmental cooperation and coordination, consensus processes.
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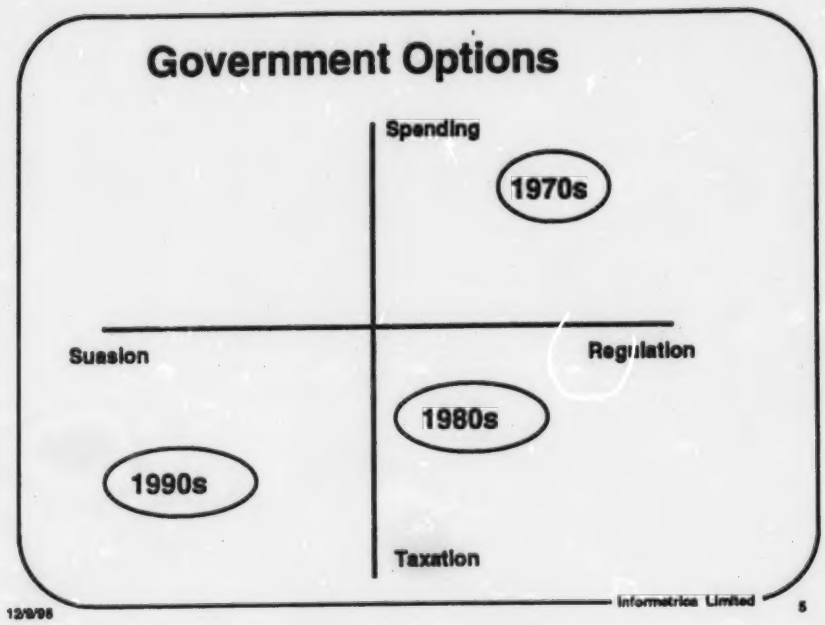
Individuals in society make millions of transactions and decisions by themselves, within the frameworks and without state intervention.

But actions by the state may be necessary due to market failure or to offset some of the results of markets.

The **four** tools of government cover most of the actions taken. Coordination is not really a tool; rather it is a necessary, or at least desirable, attribute associated with each of the four tools, particularly in a federal state.

The key thing is to recognize that there are choices about what tools are used for a given problem. Indeed, multiple tools may be employed for a given objective.

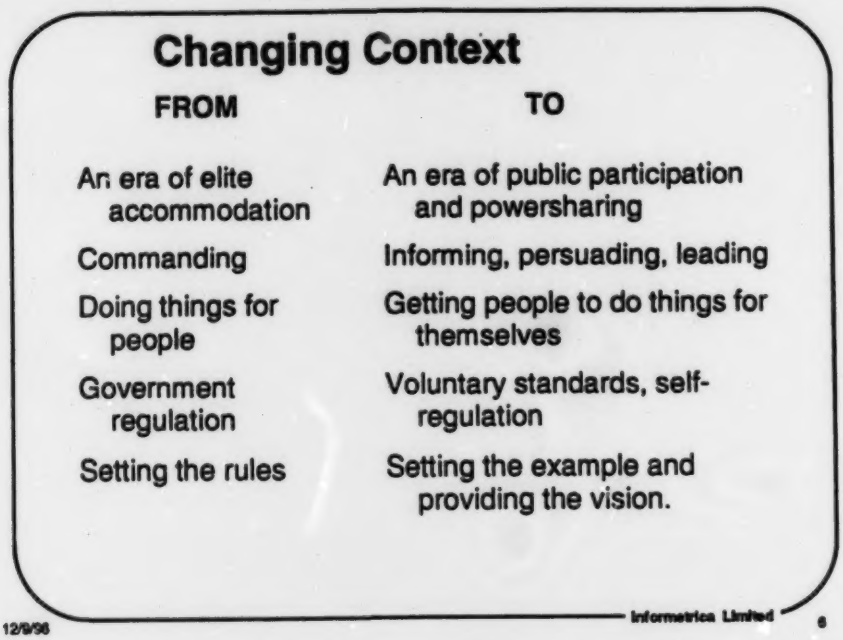
At the same time, remember the old saying, "When all that you have is a hammer, everything looks like a nail!".



Government has four options for implementing policy: spending, taxation, regulation, and suasion.

Program spending has been slowing, from annual growth of 13.8%, 1970-85, to 3.9% during 1985-1992. Forecasts suggest little growth in the 1990s. The 1980s witnessed the increased use of user fees and selected taxes.

Increased regulation in the 1970s gave away to less regulation and the emergence of self-regulation in the 1980s. Moving to increased regulation is also under pressure internationally. In the 1990s use of suasion (self-regulation, guidelines) and user fees, specific taxes, and other "price signals" seem to be the instruments of choice.

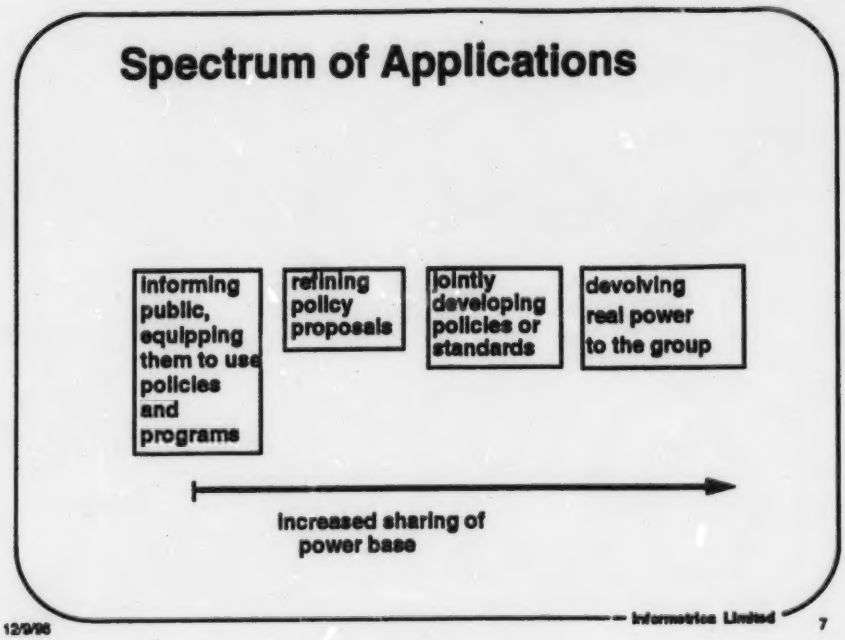


With an increasingly well-educated, and well-informed population the role of governments in society is changing. The pressure is to change the way in which the state makes choices.

The Charter and Courts in Canada are giving increasing attention to individual (and collective) rights. Combined with the adversarial preferences of the press/media we are seeing increasing challenges of political decisions and growing cynicism about governments.

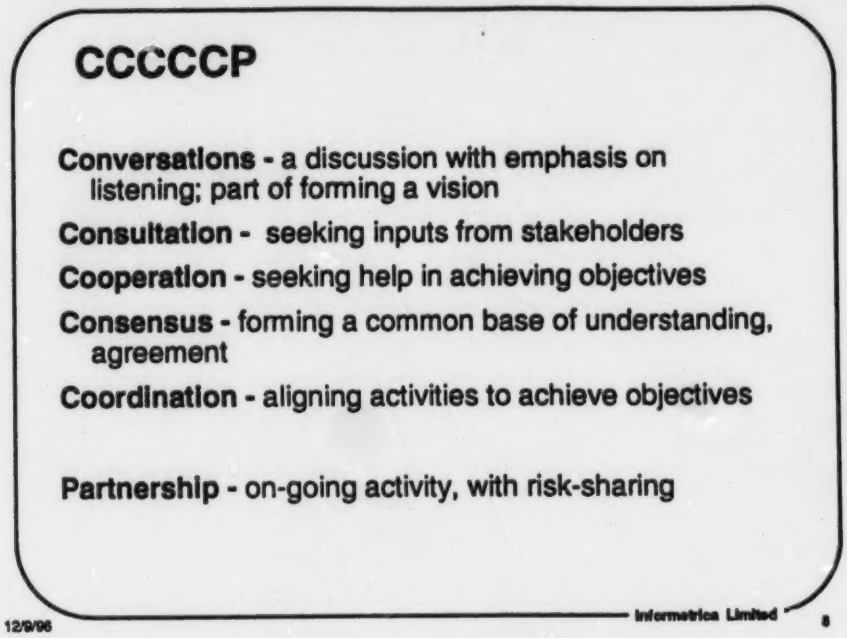
Slower economic growth moves the focus of many groups to winning the zero-sum games of rent-seeking actions (or how to get a bigger piece of the pie) rather than working to grow the economic pie.

For some changes it may be necessary for the public to take the initiative, rather than government.



- Involving the public can be done in many ways.

- The key element for government is to identify the share of the power base they are prepared to give up.


CCCCCP
Conversations - a discussion with emphasis on listening; part of forming a vision
Consultation - seeking inputs from stakeholders
Cooperation - seeking help in achieving objectives
Consensus - forming a common base of understanding, agreement
Coordination - aligning activities to achieve objectives
Partnership - on-going activity, with risk-sharing
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- These are in order of ascending degree of commitment, resources, and time frame for operation.
- We know little about which approach to use for a given problem. Indeed we are at the stage where we don't know if the tool should even be used for a particular action.
- There is continuing interactions between governments and other stakeholder groups. Perhaps as we gain experience with more successful outcomes it will be easier to determine the appropriate level to take.
- It is important that all parties have a similar sense of the nature of the interaction. If government is trolling for ideas, and the business thinks its a discussion about a partnership then there will be disappointment. Similarly, if government labels it as a consensus forming exercise, but fails to follow the consensus built, then there will be frustration.

Motivators

- **Public demand for involvement and participation**
- **Access information**
- **Extend own resources**
- **Fiscal restraints**
- **Increase power and influence**
- **Increase effectiveness**
- **Deal with complexity**
- **All parties benefit**
- **Global competitors are doing it**

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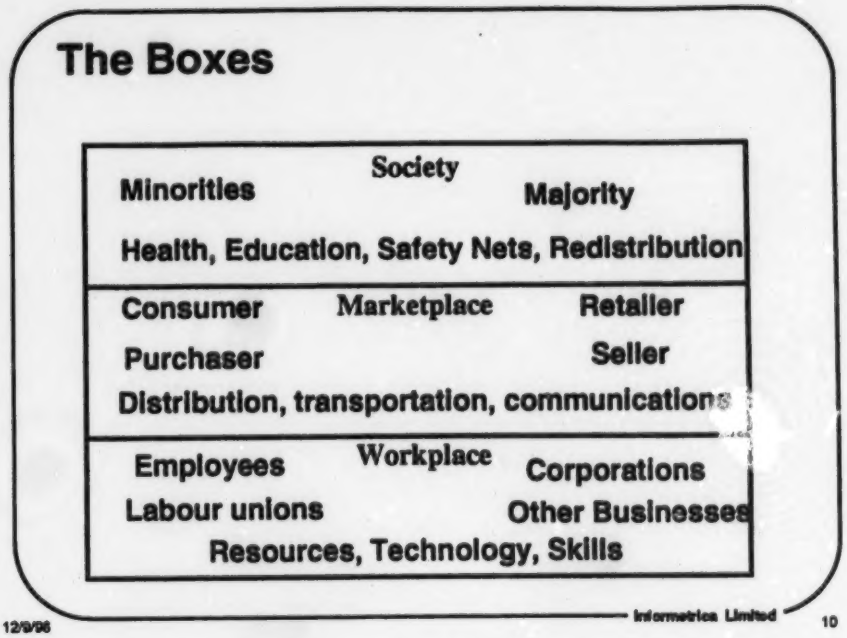
- Why would people come to the table?



- Any state can be thought of as a set of stacked boxes.

- **Workplace** - Firms combine labour, capital, technologies, resources and management to produce goods and services. (Unit is the worker or firm.)
- **Marketplace** - Goods and services are bought and sold, prices signal relative demand and supply. Inputs used by the workplace may be traded here. (Unit is a "transaction" or a market for a particular item.)
- **Society** - The people: quality of life, family, culture, education, participation. (Unit is a person or group in society.)

The Framework

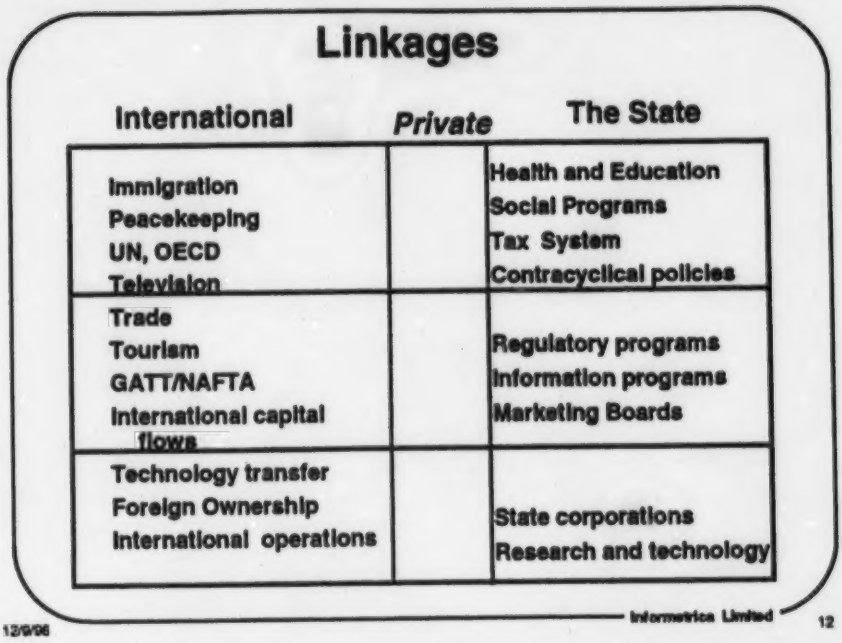
Tradition	External	The State
Caring Trust of state	International norms	Individual rights Constitution State responsibilities
Honesty Service	International agreements Standards	Contracts Competition law Property rights
Work ethic Discipline	Intellectual property	Corporate laws Labour laws

- The sides of the three stacked boxes are determined by:
  - **Tradition, Laws of the state, External influences**
- Thus the marketplace is "framed" by the laws defining private property, laws of contracts, coupled with the societal norms of voluntary buy/sell decisions
- Any state will be a blend of elements that will affect change:

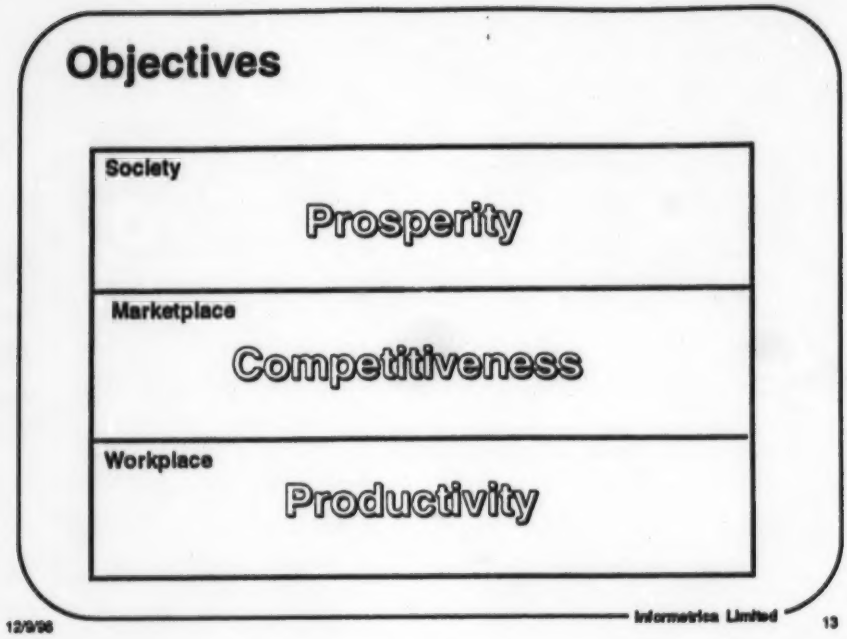
  Traditional - social, political, technological norms of the society (inertia, continuity)

  Command - authority, enforcement, management (set direction or change it for society)

  Market system - autonomous decisions, prices, consumer "choice" (dynamism, innovation, continuous change)
- This last element is the essence of economics and the necessary condition for capitalism.



- In a modern, democratic, capitalist society most of the decisions are made by individuals or private groups, and most of the institutions are private.
- But there are influences and formal linkages which affect all of the boxes originating from outside the boundaries of the country and from the state which operates within the boundaries.
- The relative importance of these other factors will depend on the degree of openness of the country and the organization and responsibilities of the government.

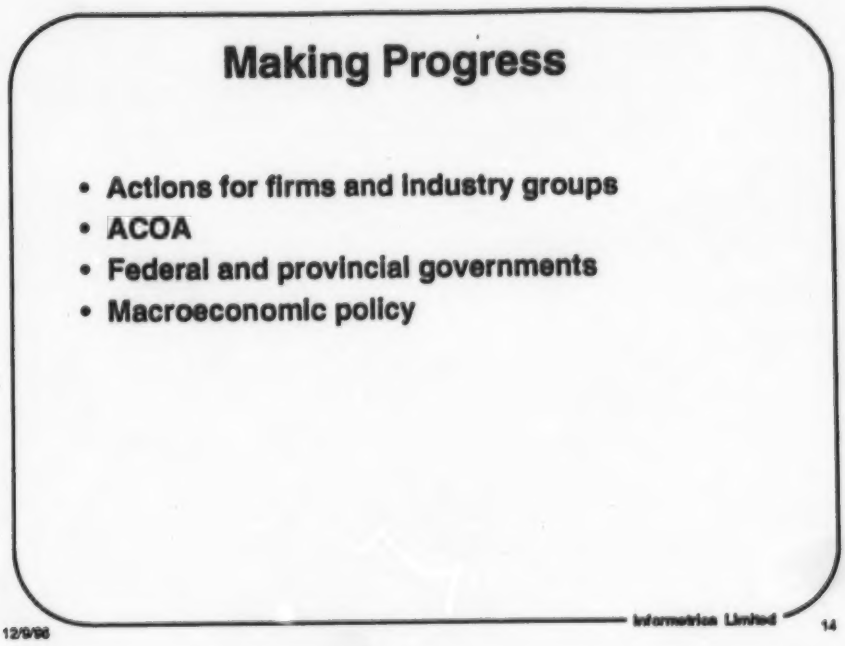


Productivity is a concept at the level of the **firm**, government department, or other organization (i.e., the **workplace**).

It is the base for competitiveness, and the root of real income gains.

Competitiveness is a concept of **marketplaces**, where relative costs determine if sustainable operations for a firm, and indeed, an industry are possible.

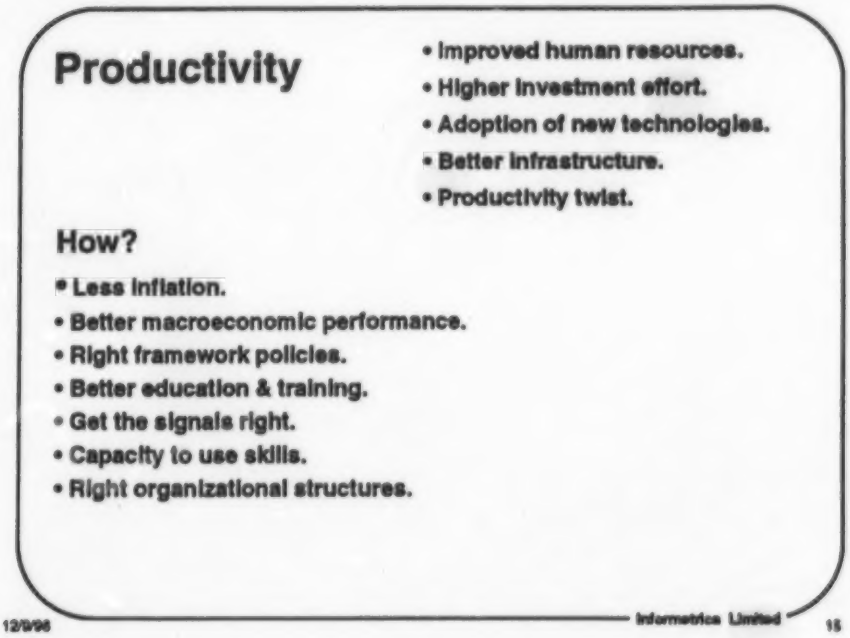
Prosperity is the concept for the **society**, with improvements in real incomes, the quality of life, equity, and environmental sustainability all as goals.



What can be done to make some progress on all three fronts - PCP?

This is what we will be having a conversation about tonight and tomorrow.

- Improving productivity growth is the key to increasing competitiveness, which, in turn, should enhance prosperity.
- What we think works. (Productivity twist is a term for moving resources to high productivity industries from lower ones.)

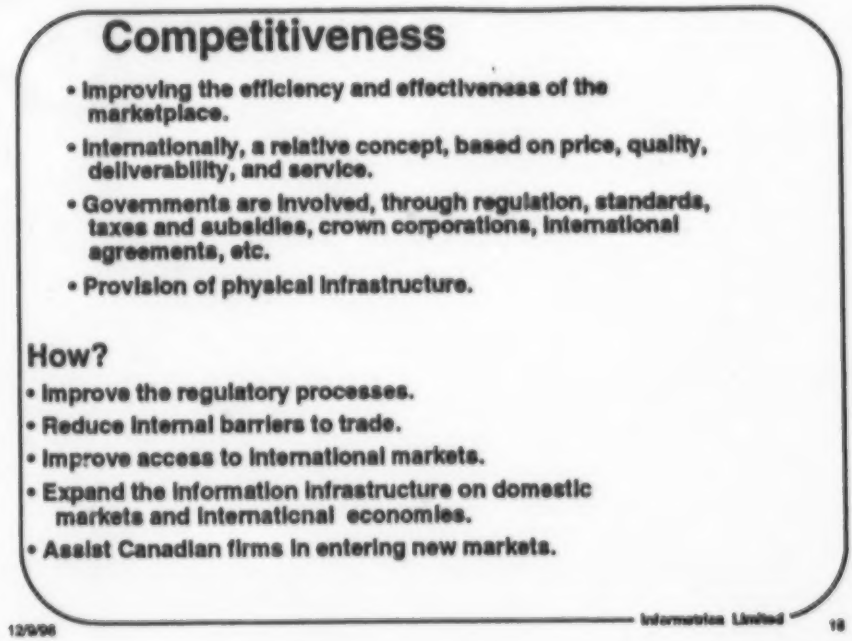


Key Policy Moves.

First three are conducive to higher investment effort, more capital per worker, and better efforts by firms.

Rewarding innovation is part of the framework policies, including intellectual property law and a capitalistic system.

Next four are aimed at human resource elements, with concern about incentives, opportunity to use skills, and the importance of appropriate organizational structure for using the skills. TQM in a nutshell.


Competitiveness
• Improving the efficiency and effectiveness of the marketplace.
• Internationally, a relative concept, based on price, quality, deliverability, and service.
• Governments are involved, through regulation, standards, taxes and subsidies, crown corporations, international agreements, etc.
• Provision of physical infrastructure.
How?
• Improve the regulatory processes.
• Reduce internal barriers to trade.
• Improve access to international markets.
• Expand the information infrastructure on domestic markets and international economies.
• Assist Canadian firms in entering new markets.
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- Private sector market participants are expected to focus on selling, marketing, and service to clients. Adoption of a "global view" can be helpful.
- Governments in essence ensure the marketplace, through the maintenance of property rights and contract.
- Regulation can be of help to all participants in laying out the rules of the game.
- International agreements and coordination through GATT, FTA, NAFTA, G-7, and other international organizations are key to the maintenance of international markets.
- Tariffs, standards, and other regulations define the access of others to Canadian markets.
- Infrastructure spending on roads, water supply, etc. is crucial here in supporting the marketplace and ensuring competition among firms by creating a base of services.

Prosperity

- Rising real incomes for all Canadians.
- Sustainable environment.
- Provision of safety nets.
- Contribution to world economies through aid, etc.
- Improvements in regional economies.
- Provision of amenities (parks, etc.)
- Participation of citizens in processes.

How?

- Redistribution of incomes from a growing pie.
- Efficient health care system.
- High-quality education system, available to all.
- Encourage voluntarism and charity.
- Involve citizens in determining goals.

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- In all of the activities of government there remains a strong priority on the efficiency of the operations. In essence, this ensures that income redistribution and other activities do not "waste" resources, maximizing the benefit delivered.
- Culture, public parks, and other niceties would also fit in here.

But social indicators or such dimensions as quality of life, life expectancy, social cohesion, and income distribution are of interest to us for economic reasons as well. There is increasing evidence that "prosperity" has a feedback on "productivity".

Thus improvements in health, education, social amenities may be good economic investments as well.

How are We Doing?

- **We are competitive and wealthy today.**
- **There is room for improvement.**
  - URATE - over 10%, large regional differences
  - Poverty, illiteracy
  - Slow productivity growth
  - Stagnant or declining per capita incomes
- **New Challenges face us.**
  - Unity
  - Military changes
  - New technologies
  - Aboriginal
  - Globalization
  - Environment

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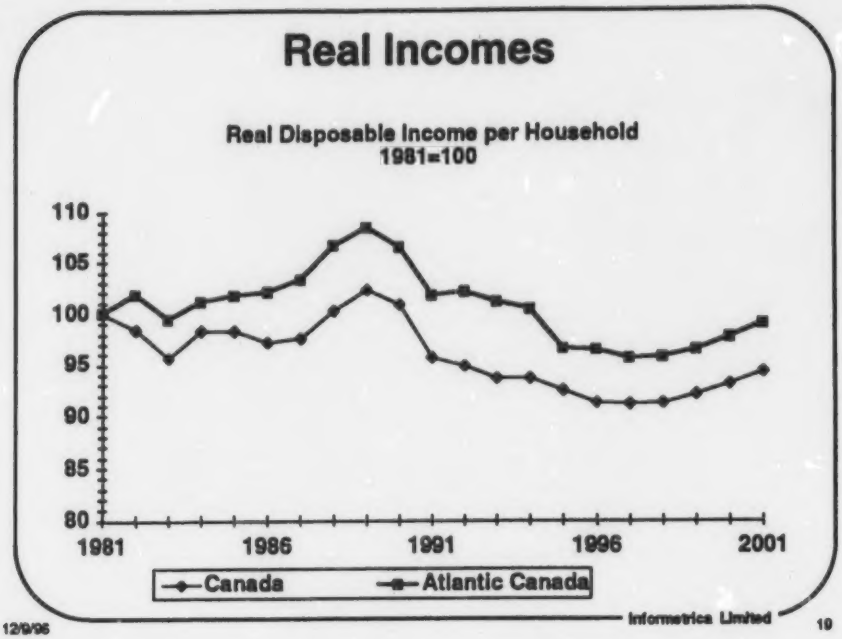
- No. 2 in GDP / capita ($PPP) among the G-7.
- No. 2 in GDP per employed person.

No. 2 in wealth per capita (resources, physical, human, and social) World Bank

- No. 1 in Quality of Life, UNDP (1994, 1995, 1996)

BUT:

- Productivity growth has been slowing for two decades.
- Real incomes per household have been declining for the last seven years (since 1989).
- Shifting role with fewer resources for the military.
- Need to adapt to changes from Biotech, computers, new materials, telecommunications.

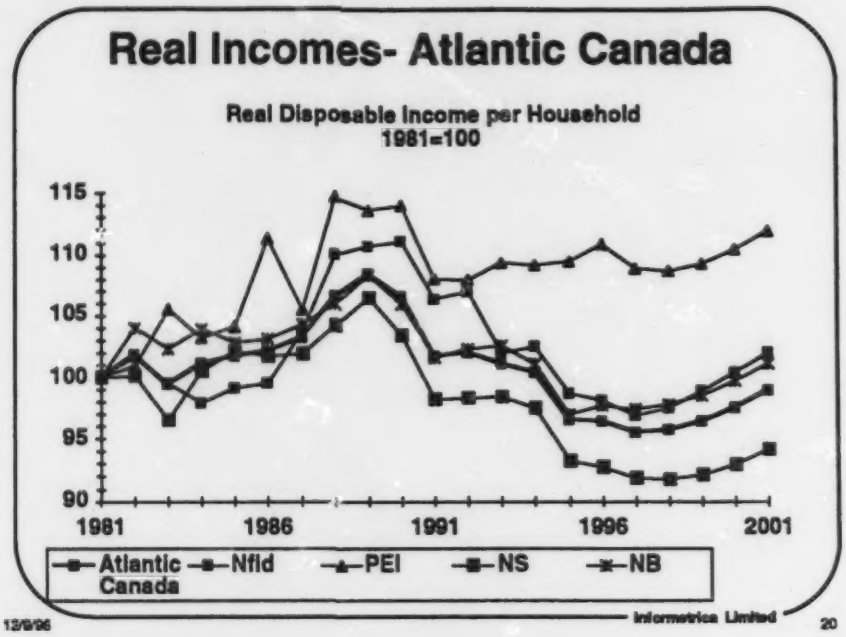


While real income per household in Canada has exceeded the 1981 level in only three years (1988-90), and then only by 2%, Atlantic Canada has done much better. Real disposable income per household has exceeded 1981 levels in every year except 1983, 1995, and probably 1996.

While Atlantic Canada has lower disposable income per household than the Canadian average,(in 1981 $31,829 versus $36,738 in Canada), since 1981, there has been a convergence, with the gap narrowing between Canada income levels and Atlantic Canada from about $5,000 to less than $2,500). (In 1996, we estimate Canada -$33,541;Atlantic Canada - $30,864)

The prospect with a scenario based on "current policies continued" is for modest improvement in real disposable income through 2001, both in Atlantic Canada and elsewhere in Canada.

The decline since the peak year of 1989 has been over 11%through 1996, similar to that occurring nationally.

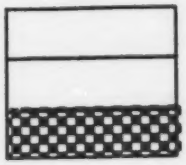


PEI is the only province with real income per household higher today than in 1981, and by a significant amount - almost 11% higher. The next two with almost the same levels as in 1981 are New Brunswick and Newfoundland. Nova Scotia was down about 7%, slightly less than the national average.

Basically, Nova Scotia tracks the national average, New Brunswick tracks the Atlantic Canada performance, and PEI and Newfoundland did better.

It will be interesting to hear your speculations on why Atlantic Canada has out-performed the national average!

Workplace Changes



- Equity and discrimination concerns
- More immigrants in workplace
- More use of regulation and mandating
- More educated labour force
- Organizational changes in the workplace.
- Technology - general-purpose factories, shorter production runs, multiple plant locations
- Emphasis on productivity growth and international cost comparisons
- The Shamrock Organization

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Rising number of females and immigrants will keep pressure up for equity in workplace and pressure on training.

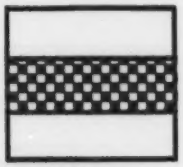
State responsibilities for training, education, health, childcare may be pushed to firm through regulation and mandating.

Educated workers want to be involved (empowerment). At the same time, alternative organizational structures become more productive, with more of a team approach, less command-control.

Technology can also change the workplace, including distributing it spatially, given communications and shared databases.

Shamrock organization -Charles Handy - Three kinds of workers: a core group of highly motivated, intensive knowledge workers, a group of part-time, high-turnover workers for some jobs, and contracted-out tasks to other organizations.

Marketplace Changes



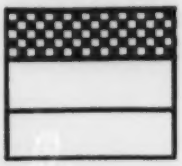
- "Externalities" internalized through regulations affecting prices
- More demanding consumers with more choices
- Increased emphasis on bundle of services to create distinctiveness in market
- More open and competitive markets

Use of price system and traded rights to pollute is likely to be the way we end up handling air and water pollution issues.

No consumer loyalty to the country of origin, but likely to buy quality.

Globalization of companies leads to large "internal markets" across international boundaries, raising issue of transfer pricing.

Societal Changes



- Quality of life, equity goals
- Increasing demands for education
- More "open" government, quicker response
- More special-interest groups
- Lower fertility rates
- Longer life cycle - health, wealth
- More grey power, less for young and parents
- Immigration contributes half of population growth
- Reduced demands for security of state at global level

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With basic needs taken care of, increased emphasis on other values in North America, including equity, environment, leisure time, etc.

Increased demands for education not only put strains on the providers, but result in more demands for involvement in decision-making, more open government, and quicker response to problems. Some of this may emerge through increasingly effective special-interest groups.

Increases in lifetime, may require review of retirement age for pensions, rising health needs for very elderly, but large transfers of wealth between generations, eventually.

Current view of "peace" may change if religious wars break out, but for now the pressure for enhanced security is less.

Next Steps

- Let's have a Conversation!